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VZCZCXRO5500
RR RUEHGR
DE RUEHBE #0343/01 2062059
ZNR UUUUU ZZH
R 242059Z JUL 08
FM AMEMBASSY BELMOPAN
TO RUEHC/SECSTATE WASHDC 1392
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCNCOM/EC CARICOM COLLECTIVE
RUEHIN/AIT TAIPEI 0011
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UNCLAS SECTION 01 OF 02 BELMOPAN 000343

SIPDIS

SENSITIVE

DEPT FOR WHA/CEN (ROIS BEAL)

E.O. 12958: N/A
TAGS: ECON EFIN ETRD PGOV
SUBJECT: GOB STILL "IMAGINING THE POSSIBILITIES" IN THE BUDGET

REF: BELMOPAN 336

SUMMARY

¶1. (U) On July 14 2008, Prime Minister Dean Barrow presented the
national budget for FY 2008/2009 budget. It is a relatively
balanced budget of US$412.4 million, up by 12.2% over last year's
revised figure of US$367.7 million. Much of the increase results
from capital III expenditures aimed at projects such as paving the
Placencia Road and the Southern Highway with funding sourced mainly
through grant receipts and soft loans - much of it from ROC/Taiwan
and Venezuela. End Summary.

BUDGET HIGHLIGHTS

¶2. (U) At a meeting of the House of Representatives on July 14,
Prime Minister and Minister of Finance Dean Barrow introduced the
delayed national budget for FY 2007/2008. In his opening remarks
the Prime Minister pointed out that, "not even in the face of the
moral, political, and economic wasteland bequeathed to us by those
that for ten years plundered our resources, do we give any talk of
despair, any contemplation of the slough of despond."

¶3. (U) The PM reported that the economy slowed with the Gross
Domestic Product (GDP) growth rate falling from 5.3% in 2006 to 1.6%
in 2007. The GDP growth rate is forecast at 2.0% for 2008.
Notwithstanding higher world prices, inflation slowed to 2.3% for
the year, though the first quarter of 2008 has already showed a
sharp 4.7% increase. Exports grew by only 0.3% while imports rose
by 4.9% resulting in a widening of the trade deficit and a more than
doubling of the external current account deficit to 3.4% of GDP.
Outstanding external debt at the end of 2007 stood at US$971.8
million, while gross international reserves were US$108.5 million --
about 2.3 months of export coverage. It is a relatively balanced
budget of US$412.4 million, up by 12.2% over last year's revised
figure of US$367.7 million and reflects a small deficit (.31%).

A CLOSER LOOK

¶4. (SBU) Income. Increases in expected revenues are derived largely
from petroleum taxes (reftel) and foreign sourced grants and loans.
ROC/Taiwan has already provided a US$25 million grant to support the
budget. Venezuela's recently sweetened Petrocaribe deal is likely
to cover at least that much this year. The Caribbean Development
Bank (CDB) has indicated it would provide over US$12 million in
small loans to spur business development and Mexico, OPEC, Kuwait,
the European Union, the International Development Bank, and the
United Kingdom are included in the revenue lines as major
contributors - several million US each. Note: Last week, the GOB

was issued a notice to pay an arbitration judgment resulting from
the former government's improper dealings for nearly US$5 million.
When Poloff met with the Finance Director to discuss the budget, he
stated that the money would come from the Petrocaribe deal and that
he was specifically instructed not to include this potential payment
in the budget because the GOB is likely to appeal it. End Note.

¶5. (SBU) Domestic financing for the budget is expected to come from
increased economic activity "imagining the possibilities" as the
UDP's election campaign slogan states. However, already this year
two sizeable companies - Maya Papaya and Eagle Produce -- announced
they will be closing down and laying off hundreds.

¶6. (U) The GOB announced several tax breaks including the removal of
the General Sales Tax (GST) on a wide range of over-the-counter and
prescription medicines and medical supplies and from certain food
items such as powdered milk, chicken, vienna sausage, cooking oil,
coffee and tea. This is a direct effort, in the PM's words, to
assist the poor. The GOB also announced the provisions of import
duty exemptions for agricultural machinery.

¶7. (U) Expenditures. As previously mentioned, the PM is interested
in starting a small loan program to encourage the development of
small businesses by year end through the CDB. The PM allocated
several million dollars in educational subsidies for tuition and
books as well as a food subsidy program. The largest expenses,
however, are associated with infrastructure improvements -
specifically the paving of the Placencia Road and the Southern
Highway in addition to the permanent bridge at the Kendal crossing
of the Sittee River to replace the one washed away by Tropical Storm
Arthur.

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THE OPPOSITION'S RESPONSE

¶8. (U) The budget debate is taking place over the next few days but
the leader of the opposition party (People's United Party (PUP)) has
already publicly commented that the budget is 'hollow'. He
maintains that several of the projects in the budget reflect the
fruition of projects the PUP already had in the pipeline.

COMMENT

¶9. (SBU) The budget does not reflect a significant deviation from
the past. Grants and soft loans will still represent a significant
component of financing. Apart from reopening the Development
Finance Corporation there are no new initiatives that will allow the
government to address its long-term financial difficulties. The GOB
continues to impose price ceilings on staple food items like flour
and rice and provide agricultural subsidies using funds from the
petroleum industry. Over the long run these subsidies/ceilings will
only create more market inefficiencies. Consequently, the increase
in fuel costs and commodity prices coupled with a tight fiscal
position will continue to place pressure on the budget. The current
situation presents a major challenge for the GOB to reduce its
outstanding debt. And although self-reliance is not often a primary
goal in Belize, the GOB will need to focus on serious economic
development and investment opportunities in order to "realize the
imagined possibilities." End Comment.

HILL